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STATE FOR WHA/MEX, EEB/TPP/ABT/ATP

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TAGS: [ECON](#) [EFIN](#) [EAGR](#) [MX](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES -  
MEXICO

REF: A. SECSTATE 39410

[1](#)B. MEXICO 949

[1](#)C. MEXICO 357

[1](#)D. MEXICO 146

[1](#)E. MEXICO 63

[1](#)F. 07 MEXICO 5242

[1](#)G. 07 MEXICO 529

[1](#)H. 07 MEXICO 391

[1](#)1. (U) This cable is Mexico City's response to Ref A regarding how rising food and agricultural commodity prices have affected Mexico.

DEMAND

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[1](#)2. (U) Prices of staple Mexican crops -- such as corn, beans, and chicken -- have varied by commodity. For example, increases have been seen in the meat sector due to increased feed costs, while prices of staple commodities have, in some cases, declined over the past year. In the case of corn, the most sensitive commodity in Mexico, wholesale prices of white corn used for tortilla production have actually showed a year-over-year decline due to a shortage of white corn seen in early 2007, which caused a price spike during that time frame. Producers, however, are actually receiving higher prices for their corn when compared to a year ago, and feed mill operations are paying elevated prices in line with the increases in yellow corn prices in the United States.

[1](#)3. (U) Overall, high commodity prices have had a somewhat mixed effect on Mexican agricultural producers. On one hand, prices paid for commodities have increased, benefiting many domestic producers that commercially market production. On the other hand, many producers, such as those engaged in small-scale animal production, have been hit by increasing input costs with little access to liquidity or credit markets to bridge the gap until they can sell their animals and products. However, the greatest impact of high prices will ultimately be felt on the consumer side of the equation. The 44.7 million Mexicans (42.6% of the population) that live below the official poverty line spend a proportionally large part of their income on basic food needs and are acutely affected by price hikes, particularly higher prices for staples such as corn-based tortillas. The 14.5 million Mexicans (13.8% of the population) who do not have enough income to meet their minimum nutritional needs will be hit even harder, unless they are able to produce enough food to meet their own needs.

[1](#)4. (U) Overall, consumers are expected to slightly shift their food purchasing patterns in response to higher prices. With prices rising particularly in the meat sector, it is expected that growth in the consumption of meats will slow, and some of the middle and lower classes will shift to cheaper protein sources, including dry beans.

## SUPPLY

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¶15. (U) Rising prices have created incentives to increase planted area in certain crops. Corn, sorghum, and wheat have estimated increases in area in MY 2007/08 and MY 2008/09 in response to the attractive prices. The greatest changes to area have been seen where large, more organized producers have been able to take advantage of the current situation. Unfortunately, a large segment of Mexican agriculture defined mainly by smaller producers, lack the resources (land, capital, and technology) to adequately respond to market conditions. The smallest scale producers generally produce for self-consumption and therefore do not respond to market signals. Although, from the consumer perspective, the self-consumption of their production helps protect them from rising prices of food to the degree they are able to provide for their own food needs.

¶16. (U) Food continues to be readily available from commercial sources, albeit at relatively higher prices. The major concern in Mexico is the potential for another "tortilla crisis" -- i.e. a repeat of the early 2007 price spike in tortillas. Mexico is currently projected to produce 22.5 million tons of primarily white corn for food use, while importing 10.8 million tons of U.S. yellow corn for feed use in the MY 2007/08. This domestic production figure would normally be more than sufficient to meet food use demand in Mexico, however, if feed users heavily substitute white corn in place of imported yellow corn due to price differences, Mexico could see another round of price increases for white corn and therefore tortillas, the staple of the Mexican diet. While some press reports say that pressure on tortilla

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prices is growing, current market conditions suggest that sufficient supplies exist in Mexico.

¶17. (U) Hard data for input prices are not readily available; however, recent reports have noted anecdotal evidence of increased input costs in Mexico, particularly fertilizer and energy costs. This situation will affect small- and medium-sized producers the most, as they generally lack access to credit often needed to purchase inputs.

## POLITICAL IMPACT

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¶18. (U) There have been some protests over rising food prices, and they are expected to continue. These protests have not been violent. The most noteworthy series of protests were in early 2007 over surging tortilla prices (Ref H). Rising food prices have not affected political stability, but they have put notable pressure on the government.

## ECONOMIC IMPACT

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¶19. (U) Mexico's annual inflation rate has hovered around 4%, the upper limit of the central bank's target range, due in large part to rising food prices. President Felipe Calderon has expressed concern to USG officials about the rising cost of food.

## ENVIRONMENTAL IMPACT

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¶10. (U) Rising food and agricultural commodity prices have not had a significant short-term environmental impact.

## GOVERNMENT POLICY RESPONSE

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¶11. (U) The GOM has been tracking the effects of higher commodity prices and their impact on food costs, and is

beginning to become more vocal about the situation as the topic is increasingly added to the public debate. The Secretariats of Agriculture (SAGARPA) and Economy (SE) have

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been the two main players in developing policies. SAGARPA is in charge of agricultural production and distribution, while SE has authority over trade and competition aspects of food policy.

¶12. (U) Mexican authorities have taken some measures to reduce import tariffs of key commodities. Currently, Mexican authorities have reduced most favored nation tariffs on such commodities as wheat, soybeans, and soybean meal to increase access to imports.

¶13. (U) SAGARPA recently announced that food supplies remain sufficient in Mexico and increases in Mexican production will help alleviate any future fears of shortages, particularly in corn. In addition, SAGARPA continues to announce subsidy programs that it says will help combat the difficulties facing producers. In particular, SAGARPA's marketing arm has been heavily promoting "forward contract" purchasing and then subsidizing hedging in the futures market as a way to keep prices for food and feed users low, while ensuring producers receive the higher prices that are available in the market. Small-scale producers generally rely on Mexico's PROCAMPO subsidy program, which offers payments per hectare, but are not generally sufficient to spur investment in further production.

¶14. (U) The Secretariat of Economy has been active in talking with major food manufacturers and industry players in an effort to keep prices from rising too quickly or without economic rational supporting such moves. For example they have reached agreements with major industry groups to limit price increases in tortillas and wheat, although they lack any legal authority to enforce such agreements. Mexico also has a number of government-sponsored programs that help protect those in need meet basic food requirements. A number of staple foods, including tortillas and milk, are provided at subsidized prices; school lunch programs provide free meals to young students; and other general development programs, such as Mexico's "Oportunidades" program, provide subsidies to help Mexico's poor cover basic necessities.

¶15. (U) Higher food prices contributed to the Bank of Mexico's decision to hike its benchmark interest rates 50 basis points last year despite concerns about how slower economic growth in the U.S. would affect Mexico. Food items weigh heavily in Mexico's consumer price index.

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#### Policy Proposals and Impact on Post Programs

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¶16. (U) Post recommends the GOM continue improving its social and anti-poverty programs (Ref B), and that it implement reforms to improve competition in Mexico's economy. Numerous state and private-sector monopolies and oligopolies keep prices artificially high -- including prices for the staple of the Mexican diet, tortillas, which have limited distribution channels in parts of the country. Post notes that policies that have encouraged rising global prices for corn, such as corn-based ethanol production, are particularly sensitive in Mexico. Rising food and agricultural commodity prices have not directly affected post's programs. Visit Mexico City's Classified Web Site at <http://www.state.sgov.gov/p/wha/mexicocity> and the North American Partnership Blog at <http://www.intelink.gov/communities/state/nap> / GARZA